

Auditing Procedures Report

73-8004

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name White Pine Library Cooperative	County Saginaw
Audit Date 9/30/04	Opinion Date 11/5/04	Date Accountant Report Submitted to State: 2/9/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

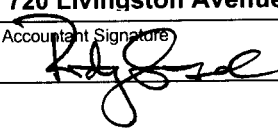
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Andrews Hooper & Pavlik P.L.C.			
Street Address 720 Livingston Avenue	City Bay City	State MI	ZIP 48708
Accountant Signature 		Date 4/6/04	

Board of Directors

White Pine Library Cooperative

9-30-04



ANDREWS HOOPER & PAVLIK P.L.C.
Certified Public Accountants

February 9, 2005

Board of Directors
White Pine Library Cooperative
Saginaw, Michigan

In our scope letter to you dated September 30, 2004, we summarized the planned scope of our audit of the financial statements of White Pine Library Cooperative for the year ending September 30, 2004, and the nature of other services to be performed for 2004. We are pleased to submit this report, which summarizes the results of our audit and other matters, which we believe would be of interest to you.

Service Provided

Our primary service to White Pine Library Cooperative for the year ended September 30, 2004 is summarized below:

- Performed an audit of the GASB 34 financial statements of the Cooperative for the year ended September 30, 2004. Our audit included all procedures considered necessary by us to perform the audit in accordance with auditing standards generally accepted in the United States of America and to issue our opinion thereon.
- Performed procedures to enable us to provide our report on compliance and on internal control over financial reporting in accordance with *Government Auditing Standards*.

Results of 2004 Audit and Review of Significant Matters

The audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such tests of the accounting records and such other auditing procedures as we considered necessary for the purpose of expressing an opinion on the financial statements. Our risk assessment and audit procedures included a study and evaluation of the Cooperative's system of internal controls as defined by SAS No. 78, *Consideration of Internal Control in a Financial Statement Audit: An Amendment to SAS No. 55*.

In addition, SAS No. 99, *Consideration of Fraud in a Financial Statement Audit*, sets forth the responsibilities of the auditor to plan and perform the audit to obtain reasonable assurance that the financial statements are not materially misstated due to errors or fraud. We have addressed the risk assessment related to fraud by performing inquiries, completing comprehensive checklists and performing other procedures designed to detect fraud risk factors.

The scope of our 2004 audit did not vary significantly from our planned scope. Our scope was based on our overall risk evaluation of the Cooperative's operations and controls as well as the 2003 audit results, discussions with management, and other matters, which came to our attention. Our assessment, or "risk analysis", directed proportionally more audit effort to those areas where the risk of material error was believed to be higher.

New Accounting and Auditing Pronouncements

On October 1, 2003, the Cooperative implemented Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statement-and Management's Discussion and Analysis-for State and Local Governments (GASB No. 34)*.

The effect of this statement was to add a Management's Discussion and Analysis section and change the financial statement presentation. The Cooperative now presents a government-wide set of financial statements, which includes fixed assets and long-term debt. The fund financial statements no longer present the general fixed asset and long-term debt account groups. And the Cooperative now shows more information on the general fund budget to actual statements.

Future Accounting and Auditing Pronouncements

No new accounting pronouncements that will have a significant impact on White Pine Library Cooperative in future years have been issued.

Required Communications with the Board of Directors

This section discusses our responsibilities under Statement on Auditing Standards (SAS) No. 61, *Communication With Audit Committees*. The following excerpts from SAS No. 61 describe the specific matters required to be communicated to the audit committee and our responses thereto:

- Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America (the report of independent auditors and other matters outlined below)

The auditor's standard report emphasizes that an audit conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* is designed to provide reasonable, rather than absolute, assurance that the financial statements are free of material misstatement. Our report dated November 5, 2004 for the September 30, 2004 year-end audit follows this format. Because of the concepts of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities or illegal acts, including fraud and defalcations, may exist and not be detected by us.

Our audit also consisted of our obtaining an understanding of the Cooperative's internal controls under SAS No. 78, which enabled us to plan the audit and determine the nature, timing and extent of the tests to be performed and to report on internal controls over financial reporting in accordance with Government Auditing Standards.

- Significant Accounting Policies--SAS No. 61 requires that we discuss with you the initial selection of and changes in significant accounting policies or their application; methods used to account for significant unusual transactions, and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. Other than the adoption of GASB No. 34, there were no such issues in the current year.
- Management Judgments and Accounting Estimates--The preparation of financial statements requires the use of accounting estimates. Certain estimates are particularly sensitive because of their significance to the financial statements and the possibility that actual future events affecting them may differ significantly from management's current expectations.
- Significant Audit Adjustments--For purposes of SAS No. 61, an audit adjustment, whether or not recorded by the Cooperative, is a proposed correction of the financial statements that, in our judgment, may not have been detected except through the auditing procedures performed. We prepared and the Cooperative made nine journal entries related to closing the books. There were no passed proposed audit adjustments.
- Disagreements with Management--We have had no disagreements with management.
- Consultation with Other Accountants--We are not aware of any consultation about significant matters by the Cooperative with other independent accountants.
- Major Issues Discussed with Management Prior to Retention--There were no major issues, including the application of accounting principles and auditing standards, that were discussed with management in connection with our recurring retention as the Cooperative's auditors.
- Difficulties Encountered in Performing the Audit--We did not encounter any difficulties related to the performance of the audit.
- Communication of Fees for Non-Audit Service--During the year we were not engaged to perform any non-audit services to the Cooperative.
- Auditor's Responsibilities in a Financial Statement Audit--SAS No. 78 requires that we are to obtain a sufficient understanding of each of the following five internal control components during the planning stages of our audit: the control environment, risk assessment, control activities, information and communication, and monitoring. SAS No. 78 further requires that the above understanding is documented, and that our basis for our conclusions about the assessed level of control risk based on our understanding is also documented.

Government Auditing Standards identify four aspects of internal control which are important to the judgments made about audit risk and the evidence needed to support the opinion on the financial statements. These are control environment, safeguarding controls, controls over compliance with laws and regulations, and control risk assessments. We are required to gain an understanding of the design of relevant internal control policies and procedures, and to determine whether they have been placed in operation. We are also required to make an evaluation of the above internal controls which are used to administer federal awards. Proper documentation is required.

Letter of Recommendations

We considered the Cooperative's internal controls during the course of our audit and we remained alert for areas where procedures and controls could be improved. These items are included in a separate letter.

* * *

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties. We will be pleased to respond to any comments or questions you may have concerning this letter or any other aspects of our services to White Pine Library Cooperative.

It has been a pleasure to serve White Pine Library Cooperative during 2003/2004. We appreciate the cooperation and courtesy extended to us by the Board of Directors, management and the employees of the Cooperative and look forward to continuing our association in the future.

Sincerely,

Andrews Hooper & Pavlik P.L.C.

White Pine Library Cooperative

Audited Financial Statements
with Report of Independent Auditors

Year ended September 30, 2004

White Pine Library Cooperative

Audited Financial Statements

Year ended September 30, 2004

Table of Contents

Report of Independent Auditors.....	1
Management's Discussion and Analysis.....	3
Government – Wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9
Governmental Fund Financial Statements:	
Balance Sheet – Governmental Funds	10
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds	11
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	12
Notes to Financial Statements.....	13
Required Supplemental Information:	
General Fund – Budgetary Comparison Schedule	21
Other Supplemental Information:	
General Fund – Balance Sheets	22
General Fund – Statements of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual	23



ANDREWS HOOPER & PAVLIK P.L.C.
Certified Public Accountants

Report of Independent Auditors

To the Board of Directors
White Pine Library Cooperative
Saginaw, Michigan

We have audited the accompanying financial statements of the governmental activities of White Pine Library Cooperative (Cooperative) as of and for the year ended September 30, 2004, which collectively comprise the Cooperative's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of White Pine Library Cooperative as of September 30, 2004 and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Cooperative has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of October 1, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2004 on our consideration of the Cooperative's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison schedule on pages 3 through 7 and 21 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America.

We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise White Pine Library Cooperative's basic financial statements. The fund financial statements on pages 24 and 25 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Andrews Hooper & Pavlik P.L.C.

Bay City, Michigan
November 5, 2004

White Pine Library Cooperative Management's Discussion and Analysis

This section of White Pine Library Cooperative's (Cooperative) annual financial report presents our discussion and analysis of the Cooperative's financial performance during the year ended September 30, 2004. This section should be read in conjunction with the Cooperative's financial statements.

Changes to the Annual Report

Governmental Accounting Standards Board Statement No. 34 (GASB 34) requires the reporting of two types of financial statements: Government-Wide Financial Statements and Fund Financial Statements.

District-Wide Financial Statements

The Statement of Net Assets is a government-wide financial statement. It includes all assets and liabilities of the Cooperative. This includes noncurrent assets and noncurrent liabilities. The noncurrent assets include all fixed assets over the Cooperative's fixed asset threshold of \$750 (\$5,000 beginning October 1, 2004). The assets are stated at cost and accumulated depreciation offsets the capital asset cost. The noncurrent liabilities include capital lease agreements and accrued vacation pay.

The Statement of Activities is also a government-wide financial statement. It includes all expenses and revenues of the Cooperative. The expenses are categorized by function. Any categorical funds or charges for services are allocated to the expenditure function to which they relate. Any revenue not attributable to a function is added to the net (expense) revenue subtotal. The basis of the Statement of Activities is full accrual.

Fund Financial Statements

The fund financial statements are comparable to prior years' financial statements. The primary difference is that the general fixed asset group of accounts and the general long-term debt are no longer reported. The Cooperative only has one fund, the general fund.

The fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual. The revenues must be measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities in the current period.

In fund financial statements, capital assets purchased by cash are reported as expenditures in the year of acquisition. No capital assets are reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on capital lease obligations are recorded as expenditures. No liability is recorded for the unpaid portion of debt.

**White Pine Library Cooperative
Management's Discussion and Analysis (continued)**

Summary of Net Assets

The following summarizes the net assets for the fiscal year ended September 30, 2004. Comparative analysis will be provided in future years when prior year information is available.

	Governmental Activities
Assets	
Current assets	\$246,969
Noncurrent assets, net of related depreciation	54,745
Total assets	<u>301,714</u>
Liabilities	
Current liabilities	14,982
Noncurrent liabilities	15,279
Total liabilities	<u>30,261</u>
Net assets	
Invested in capital assets, net of related debt	54,745
Unrestricted	216,708
Total net assets	<u>\$271,453</u>

The Statement of Net Assets includes \$54,745 in net capital assets. The capital assets are classified as noncurrent assets as they are not liquid in nature. The liabilities include \$10,093 in accrued vacation and \$5,186 in the non-current portion of the lease payable. The total net assets at September 30, 2004 amount to \$271,453. Approximately 20.2% of the total net assets are invested in capital assets, net of related debt.

The \$216,708 in unrestricted net assets represents the accumulated results of past years' operations as a whole.

Summary of Statement of Activities

The results of this year's operations for the Cooperative as a whole are reported in the Statement of Activities. The following summarizes the statement of activities for the fiscal year ending September 30, 2004:

**White Pine Library Cooperative
Management's Discussion and Analysis (continued)**

Summary of Statement of Activities (continued)

	<u>Governmental Activities</u>
Revenues:	
Program revenue:	
Charges for services	\$230,082
Operating grants	26,666
General revenue:	
State aid, unrestricted	226,160
Interest and investment earnings	1,634
Other	2,793
Total revenue	<u>487,335</u>
Function/Program Expenses:	
Continuing Education	11,606
Delivery Services	79,882
Membership Support	417,840
Total expenses	<u>509,328</u>
Change in net assets	<u>\$ (21,992)</u>

Approximately 82.0% of the expenses are related to supporting services to member libraries. This includes expenses such as salaries, benefits and supplies related to administration and other supporting services. This does not include any capital outlay expenses such as computers as these transactions are recorded in the Statement of Net Assets as noncurrent assets.

Approximately 15.7% of the expenses are related to delivery services. This includes transportation, salaries, benefits, and other services related to the movement of books and other items to various libraries.

The remaining 2.3% of expense relates to continuing education expenses. These expenses relate to salaries, benefits, supplies, and other continuing education expenses related to work shops conducted by the Cooperative.

As reported in the Statement of Activities, the cost of our governmental activities this year was \$509,328. Certain activities were partially funded from those who benefited from the programs through charges for services. This amounted to \$230,082 and consisted predominately of library membership fees. Other activities were partially funded with grant funds. This amounted to \$26,666 and consisted of federal funds used for a specific function. The remaining expenses of \$252,580 were funded by unrestricted state aid, interest income, other revenues, and prior year unrestricted funds.

The Cooperative experienced a \$21,992 decrease in net assets as a whole. The decrease in net assets differs from the change in fund balance. A reconciliation between the Statement of Activities and the Statement of Revenues, Expenditures and Changes in Fund Balance is included in the financial statements.

**White Pine Library Cooperative
Management's Discussion and Analysis (continued)**

Analysis of the Cooperative's Governmental Fund Statements

The Cooperative controls and manages money for particular purposes using the General Fund, which is the only fund used by the Cooperative. The operations of this fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures on the modified accrual basis of accounting. Government resources are allocated to and accounted for in the fund based upon the purpose for which they are to be spent.

In the General Fund, the Cooperative experienced a \$52,751 decrease in fund balance. This is due largely to a decrease in library membership during the year. Overall, total expenditures were within 0.8% of the budgeted amounts. Total revenues were 3.5% higher than anticipated.

General Fund Budgetary Highlights

Over the course of the year, the Cooperative revises its budget as it attempts to deal with changes in revenues and expenditures. Public Act 621 of 1978, Section 18(1) requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Cooperative's original and final budget amounts compared with amounts actually paid and received is provided as required supplemental information in these financial statements. Changes in the general fund original budget were as follows:

- Budgeted revenues were decreased by \$12,782. No significant changes occurred between the preliminary budgeted amounts and the amended expenditure amounts.
- Budgeted expenditures were increased by \$3,272. No significant changes occurred between the preliminary budgeted amounts and the amended expenditure amounts.
- Actual revenues were 3.5% higher than budgeted under the final budget. This was higher than the budgeted amount as a result of a Reed Grant awarded in this amount and received and expended before the year ended September 30, 2004. State revenue sources were equivalent to amounts budgeted.
- Actual expenditures were 0.8% lower than the final budget.

Capital Assets and Debt Administration

Capital Assets

Under GASB 34, the Cooperative is required to classify capital assets over the Cooperative's capitalization threshold of \$750 (\$5,000 as of October 1, 2004) as noncurrent assets and record the respective depreciation on the assets. At September 30, 2004, the Cooperative had \$54,745 invested in capital assets. The amount represents a net increase (additions greater than deletions) of approximately \$28,664 from last year.

**White Pine Library Cooperative
Management's Discussion and Analysis (continued)**

Capital Assets and Debt Administration (continued)

	<u>2004</u>	<u>2003</u>
Equipment	\$ 80,350	\$ 128,826
Furniture and fixtures	1,535	772
Total capital assets	81,885	129,598
Less: accumulated depreciation	(27,140)	(103,517)
Net capital assets	<u>\$ 54,745</u>	<u>\$ 26,081</u>

The year's additions of \$39,445 included purchases predominately related to computer technology.

Debt

At the end of this year, the Cooperative had \$7,059 in capital lease obligations outstanding.

Economic Factors and Forecasts

Our elected officials and administration consider many factors when determining the Cooperative's fiscal year budget. Two of the most significant factors affecting our budget are library membership fees and state aid revenue. State aid accounts for approximately 46.3% of our total general fund revenue, while membership fees account for approximately 35.3% of our general fund revenue. Membership fees decreased by approximately 42.5% from the year ended September 30, 2003 to the year ended September 30, 2004 as a result of a decline in library membership. Preliminary analysis indicates membership levels in 2005 similar to membership levels for the year ended September 30, 2004. State Aid is calculated based on a state per capita rate that is applied to the membership population in the areas served by the Cooperative. In addition, an additional portion of state aid is based on density population. A state approved amount is allocated to the Cooperative based on the square mileage of the area that the Cooperative serves. State Aid for 2005 is projected to be comparable to year ended September 30, 2004 levels.

The Cooperative also considers federal grants, which consisted of approximately 5.5% of revenue, in determining its budget. The Cooperative expects to obtain several federal grants during the year.

Other factors, such as an increase in benefits are causing major constraints on our spending power. Health insurance premiums alone have increased significantly for the fiscal year ending 2005. The Cooperative will continue to determine strategies that would help minimize expenditures.

The Cooperative's 2005 budget indicates that fund equity will be used during the 2005 fiscal year to maintain current operations.

White Pine Library Cooperative

Statement of Net Assets

September 30, 2004

	<u>Governmental Activities</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 244,309
Due from other governmental units	2,660
Total current assets	<u>246,969</u>
Noncurrent assets:	
Capital assets	81,885
Less: accumulated depreciation	<u>(27,140)</u>
Total noncurrent assets	<u>54,745</u>
Total assets	<u>301,714</u>
Liabilities	
Current liabilities:	
Accounts payable	7,135
Lease payable, current portion	1,873
Accrued salaries and benefits	3,122
Deferred revenue	<u>2,852</u>
Total current liabilities	<u>14,982</u>
Noncurrent liabilities:	
Lease payable, non-current portion	5,186
Accrued vacation	<u>10,093</u>
Total noncurrent liabilities	<u>15,279</u>
Total liabilities	<u>30,261</u>
Net assets	
Invested in capital assets, net of related debt	54,745
Unrestricted	<u>216,708</u>
Total net assets	<u><u>\$ 271,453</u></u>

See accompanying notes.

White Pine Library Cooperative

Statement of Activities

Year ended September 30, 2004

	<u>Program Revenues</u>			<u>Governmental</u>
	<u>Expenses</u>	<u>Charges for</u>	<u>Operating</u>	<u>Activities</u>
		<u>Services</u>	<u>Grants</u>	<u>Net (Expense)</u>
Functions/programs				Revenue and
Governmental activities:				Change in Net
				Assets
Continuing education	\$ 11,606	\$ 855	\$ -	\$ (10,751)
Delivery services	79,882	17,610	-	(62,272)
Membership support	417,840	211,617	26,666	(179,557)
Total governmental activities	<u>\$ 509,328</u>	<u>\$ 230,082</u>	<u>\$ 26,666</u>	(252,580)
General revenues:				
State of Michigan aid, unrestricted				226,160
Interest and investment earnings				1,634
Other				2,794
Total general revenue				<u>230,588</u>
Change in net assets				(21,992)
Net assets:				
Beginning of year				293,445
End of year				<u>\$ 271,453</u>

See accompanying notes.

White Pine Library Cooperative
Balance Sheet - Governmental Fund
Year ended September 30, 2004

	Total Governmental Fund
Assets	
Cash and cash equivalents	\$ 244,309
Due from other governmental units	2,660
Total assets	<u>246,969</u>
Liabilities and fund balance	
Liabilities:	
Accounts payable	\$ 7,135
Lease payable	1,873
Accrued payroll	3,122
Deferred revenue	2,852
Total liabilities	<u>14,982</u>
Fund balance:	
Unreserved	231,987
Total fund balance	<u>231,987</u>
Total liabilities and fund balance	<u>\$ 246,969</u>
 Total Governmental Fund Balance	 \$ 231,987
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds.	
The cost of the capital assets is:	\$ 81,885
Accumulated depreciation is:	<u>(27,140)</u>
	54,745
Long-term liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued vacation	(10,093)
Capital lease	(5,186)
Net assets of governmental activities	<u>\$ 271,453</u>

See accompanying notes.

White Pine Library Cooperative

Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund

Year ended September 30, 2004

	General/ Total Governmental Fund
Revenues	
Intergovernmental - Federal	\$ 26,666
Intergovernmental - State	226,160
Charges for services	231,046
Interest	3,464
Total revenues	<u>487,336</u>
Expenditures	
Recreation and culture	<u>540,087</u>
Change in fund balance	(52,751)
Fund balance at beginning of year	284,738
Fund balance at end of year	<u><u>\$ 231,987</u></u>

See accompanying notes.

White Pine Library Cooperative

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balance of Governmental Funds to the Statement of Activities

Year ended September 30, 2004

Net Change in Fund Balance - Total Governmental Fund	\$ (52,751)
---	--------------------

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. In the statement of
activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation expenses	\$ (10,781)	
Capital outlay	<u>39,445</u>	

28,664

Decrease in accrued vacation absences is reported as a reduction in expense in the
statement of activities.

223

Decrease in long-term lease obligations is reported as a reduction in expense in the
statement of activities.

1,872

Net Change in Net Assets - Government-Wide Statement of Activities

\$ (21,992)

See accompanying notes.

White Pine Library Cooperative

Notes to Financial Statements

September 30, 2004

1. Summary of Significant Accounting Policies

Introductions

The White Pine Library Cooperative (Cooperative) was formed under Public Act 89 of 1977, and is considered a local governmental unit. The Cooperative provides various services to member libraries in Arenac, Bay, Clare, Gladwin, Huron, Iosco, Isabella, Midland, Ogemaw, Saginaw, Tuscola and contiguous counties.

The financial statements of the Cooperative have been prepared in conformity with accounting principles generally accepted in the United States of America, as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Cooperative's accounting policies are described below.

On October 1, 2003, the Cooperative adopted GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Some of the significant provisions of the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Cooperative's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all the Cooperative's activities.
- A change in the fund financial statements to focus on the major fund.

These are reflected in the accompanying financial statements (including notes to financial statements).

Financial Reporting Entity

In evaluating how to define the Cooperative, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP, currently GASB Statement No. 14, *The Financial Reporting Entity*, and GASB 39, *Determining whether certain Organizations are Component Units*.

Based upon the application of these criteria, the financial statements of the Cooperative contain all the funds and account groups controlled by the Cooperative's Board of Directors as no other entity meets the criteria to be considered a blended component unit or a discretely presented component unit of the Cooperative nor is the Cooperative a component unit of another entity.

White Pine Library Cooperative

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Basic Financial Statements – Government-Wide Statements

The Cooperative's basic financial statements include both government-wide (reporting the Cooperative as a whole) and fund financial statements (reporting the Cooperative's major fund). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. All of the Cooperative's activities are classified as governmental activities.

In the government-wide Statement of Net Assets, the governmental column is presented on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Cooperative's net assets are reported in two parts: invested in capital assets, net of related debt and unrestricted net assets. The Cooperative first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the Cooperative's functions. The functions are also supported by general government revenues. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating grants and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (state and federal sources, interest income, etc.).

This government-wide focus is more on the sustainability of the Cooperative as an entity and the change in the Cooperative's net assets resulting from the current year's activities.

Basic Financial Statements – Fund Financial Statements

The financial transactions of the Cooperative are reported in individual funds in the fund financial statements. The Cooperative only has one fund, the general fund. This fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures.

The general fund is the only fund used by the Cooperative. It is used to account for all financial resources.

White Pine Library Cooperative

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Measurement Focus and Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual

The governmental activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual

The governmental fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

Assets, Liabilities and Equity

Deposits and Investments

The Cooperative's cash and cash equivalents are considered to be cash on hand, demand deposits, and short term investments with original maturities of three months or less from date of acquisition.

The Cooperative reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Cooperative intends to hold the investment until maturity. The Cooperative had no investments at September 30, 2004.

White Pine Library Cooperative

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Assets, Liabilities, and Equity (continued)

Deposits and Investments (continued)

State statutes authorize the Cooperative to deposit and invest in the accounts of federally insured banks, insured credit unions, and savings and loan associations; bonds and other direct obligations of the United States, or an agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptances of United States banks; commercial paper rated within the three highest classifications by not less than two standard rating services, which mature not more than 270 days after the date of purchase, and which involves no more than 50 percent of any one fund; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Michigan law prohibits security in the form of collateral, surety bond, or other forms for the deposit of public money. An Attorney General's opinion states that public funds may not be deposited in financial institutions located in states other than Michigan. The Cooperative's deposits are in accordance with statutory authority.

Accounts Receivable

Management of the Cooperative considers all accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been provided. If amounts become uncollectible, they will be charged to operations in the period of uncollectibility.

Capital Assets

Capital assets purchased or acquired with an original cost of \$750 (\$5,000 beginning October 1, 2004) or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Machinery and equipment	5-20 years
Furniture & Fixtures	5-20 years

Compensated Absences

Accumulated vacation and sick pay amounts and associated employee-related costs are accrued when earned. The non-current portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

White Pine Library Cooperative

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Assets, Liabilities, and Equity (continued)

Unemployment Insurance

The Cooperative reimburses the Michigan Employment Security Agency (MESA) for the actual amount of unemployment benefits disbursed by the MESA on behalf of the Cooperative. Billings received from MESA through September 30, 2004 are accrued.

Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Comparisons to budget are presented for the General Fund as required by accounting principles generally accepted in the United States of America. Budgeted amounts are as originally adopted, or as amended by the Cooperative. Individual amendments were not material in relation to the original appropriations that were amended. The budget for the General Fund is adopted on a basis consistent with accounting principles generally accepted in the United States of America. Adoption and amendments of budgets used by the Cooperative are governed by Public Act 621, which was complied with during the year ended September 30, 2004. Any amendment of the original budget must meet the requirements of Public Act 621. Budgets are adopted in total for the general fund.

2. Deposits - Credit Risk

At September 30, 2004, the book value of the Cooperative's deposits, consisting primarily of interest bearing checking accounts was \$244,309 with a corresponding bank balance of \$251,272. Of the bank balances, \$2,267 was covered by Federal Depository Insurance and \$249,005 was uninsured. The Cooperative places its deposits with high quality financial institutions. Although such deposits exceed federally insured limits, they are, in the opinion of the Cooperative, subject to minimal risk.

White Pine Library Cooperative

Notes to Financial Statements (continued)

2. Deposits - Credit Risk (continued)

Deposits are categorized into these three categories of credit risk:

1. Insured or collateralized with securities held by the entity or by its agent in the entity's name.
2. Collateralized with securities held by the pledging financial institution's trust department or agent entity name.
3. Uncollateralized.

	Category			Carrying Value
	1	2	3	
Deposits with Financial Institutions	<u>\$100,000</u>	<u>—</u>	<u>\$151,272</u>	<u>\$251,272</u>

3. Pension Plan

The Cooperative provides pension benefits for all of its full-time employees through a Simplified Employee Pension Plan. The Cooperative's contributions are calculated based on the lesser of \$30,000 or 15% of compensation. Total contributions for the year ended September 30, 2004 were \$20,919, which is 15% of covered payroll for the year then ended. Employees are eligible to participate after six months of service. The Cooperative's total payroll for the year ended September 30, 2004 was \$151,938, and the Cooperative's contributions to the plan for the year were based on eligible wages of \$151,858.

4. Rental Agreement

During the year ending September 30, 2004, the Cooperative leased 3,100 square feet of office space located at 3210 Davenport, Saginaw, Michigan. Monthly rental payments were \$3,033 for October 1, 2003 through December 31, 2003 and \$1,336 for January 1, 2004 through September 30, 2004. The Cooperative incurred total rental expenditures of \$21,123 during the year. This lease is renewed on an annual basis.

5. Capital Assets

Government capital asset activity for the year ended September 30, 2004 was as follows:

White Pine Library Cooperative

Notes to Financial Statements (continued)

5. Capital Assets (continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets:				
Equipment	\$128,826	\$37,910	\$86,386	\$80,350
Furniture and fixtures	772	1,535	772	1,535
Subtotal	129,598	39,445	87,158	81,885
Accumulated depreciation:				
Equipment	102,745	10,762	86,386	27,121
Furniture and fixtures	772	19	772	19
Subtotal	103,517	10,781	87,158	27,140
Capital assets, net	\$ 26,081	\$28,664	—	\$54,745

6. Long-Term Debt

The following is a summary of long-term debt transactions of the Cooperative for the year ended September 30, 2004:

	<u>Balance 10/1/2003</u>	<u>Increases</u>	<u>Payments</u>	<u>Balance 9/30/2004</u>
Total capital leases	\$ 8,625	—	\$1,566	\$ 7,059
Compensated vacation	10,316	—	224	10,093
Subtotal	\$18,941	—	\$1,790	17,152
Current leases payable				1,873
Total long-term debt				\$15,279

The annual requirements to amortize all capital leases outstanding (principal and interest) as of September 30, 2004 are:

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$1,872	\$1,188	\$3,060
2006	2,297	763	3,060
2007	2,181	219	2,400
2008	709	16	725
	<u>\$7,059</u>	<u>\$2,186</u>	<u>\$9,245</u>

White Pine Library Cooperative

Notes to Financial Statements (continued)

7. Unemployment Compensation

The Cooperative is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the Cooperative must reimburse the Employment Commission for all benefits charged against the Cooperative for the year.

8. Contingencies

The Cooperative has received state and federal grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditures disallowed under terms of the grants, management believes that any required reimbursement would not be material.

9. Risk Management

The Cooperative is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters.

The Cooperative carries commercial insurance for risks to cover these losses. The Cooperative also continues to carry commercial insurance for other risks of loss, including employee health, employee dental, life insurance and accident insurance.

10. Excess of Expenditures Over Appropriations in Budgetary Funds

P.A. 621 of 1978, Section 18(1) as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. GASB Statement No. 34 requires disclosure of any excess of expenditures over appropriations for the individual funds presented in the Budgetary Comparison Schedule.

In the following instances, the Cooperative expended funds in excess of the amounts appropriated:

<u>General Fund</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
Salaries	\$155,400	\$156,277	\$877
Supplies	3,900	4,207	307
Equipment Lease	3,150	3,434	285

Required Supplemental Information

White Pine Library Cooperative

General Fund - Budgetary Comparison Schedule

September 30, 2004

	Budgeted Amounts			Variance with Final Budget (Under) Over
	Original	Final	Actual	
Revenues				
Intergovernmental - Federal	\$ 23,000	\$ 10,000	\$ 26,666	\$ 16,666
Intergovernmental - State	226,141	226,161	226,160	(1)
Charges for services	232,911	233,059	231,046	(2,013)
Interest	1,350	1,400	3,464	2,064
Total revenues	<u>483,402</u>	<u>470,620</u>	<u>487,336</u>	<u>16,716</u>
Expenditures				
Recreation and culture	<u>540,908</u>	<u>544,180</u>	<u>540,087</u>	<u>(4,093)</u>
Excess of expenditures over revenues	(57,506)	(73,560)	(52,751)	20,809
Fund balance at beginning of year	284,738	284,738	284,738	-
Fund balance at end of year	<u>\$ 227,232</u>	<u>\$ 211,178</u>	<u>\$ 231,987</u>	<u>\$ 20,809</u>

Other Supplemental Information

White Pine Library Cooperative

General Fund
Balance Sheets

	September 30	
	2004	2003
Assets		
Cash and cash equivalents	\$ 244,309	\$ 305,829
Due from other governmental units	2,660	494
Total assets	<u>\$ 246,969</u>	<u>\$ 306,323</u>
Liabilities and fund balance		
Liabilities:		
Accounts payable	\$ 7,135	\$ 6,661
Leases payable	1,873	1,566
Accrued payroll	3,122	1,478
Deferred revenue	2,852	11,880
Total liabilities	<u>14,982</u>	<u>21,585</u>
Fund balance	231,987	284,738
Total liabilities and fund balance	<u>\$ 246,969</u>	<u>\$ 306,323</u>

White Pine Library Cooperative

General Fund

Statements of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Year ended September 30, 2004

(with comparative totals for the year ended September 30, 2003)

	2004			2003
			Favorable (Unfavorable) Variance	
	Budget	Actual		Actual
Revenues				
Intergovernmental:				
Library difficulty grant	\$ 10,000	\$ 26,666	\$ 16,666	\$ 50,054
State aid	226,161	226,160	(1)	297,085
Bib access	700	676	(24)	1,266
Delivery	15,970	17,610	1,640	17,836
Membership fees	172,198	172,028	(170)	299,331
Materials	900	927	27	1,077
Merit connection	28,108	28,108	-	28,108
Other services	12,478	10,734	(1,744)	6,570
Interest	1,400	1,634	234	2,760
Sale of equipment	1,830	1,830	-	-
Miscellaneous	875	963	88	3,136
Total revenues	470,620	487,336	16,716	707,223
Expenditures				
Recreation and cultural:				
Salaries	155,400	156,277	(877)	172,512
Fringe benefits	64,650	63,737	913	72,276
Unemployment	4,000	3,563	437	1,610
Supplies	3,900	4,207	(307)	6,200
Video cassettes	6,300	4,555	1,745	3,456
Software	1,500	1,457	43	4,650
Maintenance	500	493	7	1,585
Professional services	44,600	44,190	410	44,304
OCLC	24,000	23,476	524	56,512
VLC	53,050	53,017	33	119,311
Delivery	70,400	70,391	9	75,840
Continuing education	1,250	1,247	3	3,690

White Pine Library Cooperative

General Fund

Statements of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (continued)

	2004			2003
	Budget	Actual	Favorable (Unfavorable) Variance	Actual
Expenditures (continued)				
Recreation and cultural (continued):				
Original Cataloging	\$ 350	\$ 274	\$ 76	\$ -
Accounting	3,450	3,450	-	3,300
Professional Development	3,000	2,642	358	-
Telephone	3,000	2,757	243	3,487
Postage	1,400	1,400	-	1,326
Staff travel	1,000	664	336	964
Printing	500	182	318	-
Equipment Lease	3,150	3,435	(285)	-
Insurance	6,600	6,592	8	7,069
Repairs and maintenance	-	-	-	3,447
Rental	21,920	21,918	2	37,386
Merit Connection	28,110	28,108	2	28,108
Donations	-	-	-	-
Miscellaneous	1,550	1,520	30	686
Equipment	40,600	40,535	65	173
Total expenditures	<u>544,180</u>	<u>540,087</u>	<u>4,093</u>	<u>647,892</u>
Excess of revenues over (under) expenditures	(73,560)	(52,751)	20,809	59,331
Fund balance at beginning of year	<u>284,738</u>	<u>284,738</u>	-	<u>225,407</u>
Fund balance at end of year	<u>\$ 211,178</u>	<u>\$ 231,987</u>	<u>\$ 20,809</u>	<u>\$ 284,738</u>



ANDREWS HOOPER & PAVLIK P.L.C.
Certified Public Accountants

Report on Compliance and on Internal Control over Financial
Reporting Based on an Audit of General Purpose Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
White Pine Library Cooperative
Saginaw, Michigan

We have audited the general purpose financial statements of White Pine Library Cooperative as of and for the year ended September 30, 2004, and have issued our report thereon dated November 5, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether White Pine Library Cooperative's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered White Pine Library Cooperative's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of White Pine Library Cooperative in a separate letter dated November 5, 2004.

This report is intended solely for the information and use of the Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Andrews Hooper & Pavlik P.L.C.

Bay City, Michigan
November 5, 2004

720 Livingston Avenue • P.O. Box 159 • Bay City, Michigan 48707 • ph 989.893.3588 fx 989.893.8515 • www.ahpplc.com



ANDREWS HOOPER & PAVLIK P.L.C.
Certified Public Accountants

To the Board of Directors
White Pine Library Cooperative
Saginaw, Michigan

We have audited the GASB 34 financial statements of White Pine Library Cooperative for the year ended September 30, 2004, and have issued our report thereon dated November 5, 2004. In planning and performing our audit of the general purpose financial statements, we considered the Cooperative's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control structure.

The attached suggestions are submitted to assist in improving procedures and controls.

This report is intended solely for the information and use of the Board of Directors and management of White Pine Library Cooperative. It is not intended to be and should not be used by anyone other than those specified parties.

We would be pleased to discuss the following matters or to respond to any questions, at your convenience.

Andrews Hooper & Pavlik P.L.C.

Bay City, Michigan
November 5, 2004

Budget Appropriation Procedures

In reviewing the budget for the year ended September 30, 2003, we noted certain areas of your budget and budgeting, which are not in compliance with Public Act 621 of 1978 (The Uniform Budgeting and Accounting Act).

Public Act 621 prohibits the Cooperative from incurring expenditures against an account in excess of the amount appropriated. In the following instances, the Cooperative expended funds in excess of the amounts appropriated:

	<u>Appropriated</u>	<u>Expended</u>	<u>Excess</u>
General Fund			
Salaries	\$155,400	\$156,277	\$877
Supplies	3,900	4,207	307
Equipment Lease	3,150	3,435	285

To prevent a future situation whereby expenditure exceeds the amount appropriated we recommend that the budget be reviewed and that amendments be made prior to the expenditure of any monies that would exceed the amount originally appropriated.